HUD CONSUMER BULLETIN

PROPERTY IMPROVEMENT LOANS

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Washington, D.C. 20410

Foreword

Keeping up your home and improving it to conform with your family's changing needs helps give the property lasting value and helps you to enjoy being a homeowner. Wisely planned and financed improvements make a home better serve the needs of the whole family.

Each year millions of American families repair or improve their properties. Some families use money at hand to pay for the improvements, others use credit.

FHA has had more than three decades of experience with its Title I property improvement program. During this time millions of loans, totaling billions of dollars, have been insured, and various means for protecting the users of the program have been developed. Because Title I loans are insured by FHA, lenders can make them at the lower end of the interest rate scale for this type of loan. Also, Title I loans are quick and convenient to make.

Features of FHA Title I Insured Loans

Title I loans are made by banks, savings and loan associations, finance companies, and other private lenders. By insuring these lenders against loss on such loans, FHA makes it less costly for you to obtain money needed to pay for improving your property.

Economy

As a rule, the thriftiest way to handle property improvements is to pay cash. Sometimes, however, you must weigh what it will cost to borrow against what it will mean to delay the work until you have cash. Also, some repairs cannot be put off. A worn-out roof or furnace, for instance, must be replaced as soon as possible.

When you have to borrow, you want to do it in the least costly way. FHA-insured Title I loans involve relatively low financing charges and no hidden costs, closing costs, or other extras.

Convenience

Lenders give prompt service on Title I applications. Usually only the lender's approval is necessary and you can get an answer in one day. You need no downpayment. In most cases, your signature serves as security and no cosigner is required. There is no need to disturb any mortgage or deed of trust you may have on your house.

Most Title I loans are repaid in equal monthly payments over one- to five-year terms. This gives you some leeway to arrange for financing that suits you.

Consumer Protection

The Title I plan has [illegible] tures helpful t[illegible] plans do not have. For instance, if a contractor arranges the loan for you he must first be approved by the lender. This ap-

proval goes only to contractors checked by the lender and found to be reliable, financially responsible, and qualified to do good work and give customers proper service.

Choice of Contractor

You make your own choice of a contractor and you decide whether materials and workmanship are acceptable. FHA does not inspect the work and does not require that the lender inspect it.

Even though lenders are thorough in checking into the business and financial character of the contractor, you should make your own thorough review.

Consult your local Chamber of Commerce, the local Better Business Bureau, and your lender about your contractor's reputation, if you are not certain of it. If possible, talk to other people for whom he has worked.

Contractors acting under Title I must comply with FHA rules. These are designed, in part, to protect borrowers from improper selling practices. For instance, FHA forbids:

- Sales devices implying the improvements will be used as a model for any purpose.

- Padding of the improvement cost to include other customer debts besides the actual job cost.

- Rebates, bonuses, commissions, or other payments to urge customers to buy.

- False guarantees or product misrepresentations.

- Trial purchases.

- False credit information.

Be wary of contractors who offer inducements such as these.

Completion Certificate

A feature of Title I financing that is very important to the consumer is the completion certificate. If you arrange for your lender to pay the net proceeds of your loan to your contractor directly, he will withhold payment until: (1) he receives a completion certificate signed by you stating that all terms of your agreement with the contractor have been fulfilled, and (2) six days have elapsed since you were notified that your loan application was approved. This interval gives you a chance to tell your lender if you are dissatisfied with the work performed.

The completion certificate includes a statement by the contractor that all bills relating to the improvement have been paid or will be paid within 60 days. This is an automatic check that helps protect the borrower if any claim comes in from a subcontractor.

Handling of Complaints

As a rule, contractors are eager to please their customers. They usually take care of complaints about the work within a reasonable time. Once in a while, however, they may not agree with the borrower as to some feature of the work—how good it is, how long it will last, and so on. FHA tries to have contractors correct defects in workmanship. It also tries to bring about satisfactory settlement of just complaints. In most cases it succeeds.

Purposes of Title I Loans

You can use Title I loans to alter, repair, improve, or convert existing homes and other structures. You can also use them to build certain types of new nonresidential structures.

The work planned must protect or improve the property's basic livability or utility.

Your loan amount could include architectural and engineering costs and building permit fees, or it could be just enough to pay for materials.

You cannot use a Title I loan to pay for work already done.

If a Title I loan to improve a residential building amounts to over $600, the building must have been completed and occupied for at least 90 days. This limit does not apply if the loan is to build a civil defense shelter or to repair damage caused by a major disaster.

If you are in doubt as to whether or not a certain improvement can be financed with a Title I loan, consult your Title I lender or the FHA.

Types of Title I Loans

There are four types of Title I loans. Two types can be used to improve existing buildings and the others to build new structures.

You could have more than one Title I loan at a time on the same property or different properties. The total balance outstanding for each property, however, could not be more than the largest amount allowed for the type of loan involved.

For instance, if you had a $1,500 principal balance outstanding on a Title I loan on your single-family home, you could obtain another Title I loan of up to $2,000 to further improve the property.

If a new loan would make any or all Title I loans you might have total more than $5,000, FHA would have to approve the new loan before it was made and might require the lender to take security for it.

Class 1(a) loans are made in amounts up to $3,500 to alter, repair, and improve residential and nonresidential properties. Repayment term may extend up to 5 years. Only completed structures are eligible. Most Title I loans fall into this class.

Examples of nonresidential improvements would be installing a new store front

a warehouse or other commercial build- and similar work.

he financing charge for a Class 1(a) . cannot exceed a discount of $5 per) a year on any loan amount up to 00. If the loan amount is over $2,500, top discount rate on the part above 00 is $4 per $100 a year. For instance, ι Title I loan of $95 for one year, you ld sign a note to repay $100 in 12 thly payments.

lass 1(b) loans are made for altering, .iring, improving, or converting exist- structures used or to be used as apart- t houses or dwellings for two or more ilies.

ou could use this type of loan, for in- ce, to convert a one-family house or a ness building into apartments, or to ernize an older apartment building.

ıe loan amount cannot exceed $15,000. further limited to no more than $2,500 each dwelling unit in the improved cture. (On loans of over $5,000, the er must obtain FHA approval before .ncing the money.)

stallments to repay the loan may ex- up to 7 years. The financing charge : is the same as for Class 1(a) loans.

ass 2(a) loans are made to finance the ling of new structures that will be put to uses other than residential or agri- :ral. Such a building might be a ware- e, a filling station, a small retail store, .e like.

ans of this class are made in amounts › $3,500. They are repaid in monthly ιents over a term up to 5 years. They the same financing charge limit as 1(a) and (b) loans.

ss 2(b) loans are used to pay for ing new service structures on farms— ;, silos, smokehouses, and others.

ə loan amount may be up to $3,500. :ime allowed to repay may be up to rs. It may be up to 15 years if the

loan is secured by a mortgage or other first lien on the improved property.

The financing charge limit on a Class 2(b) loan to be repaid within 7 years is the same as that for the classes of loans already described. If the term exceeds 7 years, the charge may not exceed $3.50 discount per $100 per year for the entire amount of the loan.

How To Get a Title I Loan

You must own the property that you improve with a Title I loan, be buying it under a contract, or hold it under a lease good for six months beyond the date the loan will mature. You must have enough income to make the regular payments on the Title I loan.

If you are leasing the property to be improved and it is neither residential nor agricultural, the owner must sign the note with you unless FHA agrees to his not signing it.

Your first step is to decide exactly what work you wish to have done.

Next, if you don't have a preferred dealer, get bids to estimate how much the work will cost.

Then apply for a Title I loan. Either make your own application to the lender or apply through the contractor you select to do the work.

Direct Application

If you, yourself, apply to the lender, he will check your credit and let you know whether or not he approves the loan.

You can obtain the money any time after your application is
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Application through a Contractor

If you apply through a contractor, he will ask you to sign both the credit application and a contract or sales agreement.

Before you sign these papers be sure you are clear on:

- What work you are contracting for and what it is to cost.
- What the financing charge will be.
- What the monthly payment will be.
- How many payments you will be required to make.

The contractor will give the lender your signed application, and the lender will tell you if your credit has been approved. The work can then go ahead.

After improvements as set forth in the contract or sales agreement are finished, or after materials for which the loan was made are delivered, the contractor asks you to sign the completion certificate. By signing this paper you certify that you approve the work and materials. You also authorize payment to the contractor.

Repayment of Title I Loans

Your note shows that the loan is to be repaid in monthly payments. It also shows the due date of the first payment—within two months from the note's date. If your income is largely from farming, your payments may be timed to fit receipt of your income—for instance, semiannual payments.

If you pay off your note before it matures, the lender will pay you a rebate computed from tables approved by FHA.

The following table gives monthly payments for Title I loans of varying amounts repayable over one- to five-year terms.

Amount of Loan	12-Month Loan	24-Month Loan	36-Month Loan	48-Month Loan	60-Month Loan
$100	$8.78	$4.59	$3.20	$2.50	$2.08
200	17.55	9.18	6.39	5.00	4.16
300	26.32	13.77	9.59	7.49	6.24
400	35.09	18.36	12.78	9.99	8.32
500	43.86	22.95	15.97	12.49	10.40
600	52.64	27.54	19.17	14.98	12.47
700	61.41	32.12	22.36	17.48	14.55
800	70.18	36.71	25.56	19.98	16.63
900	78.95	41.30	28.75	22.47	18.71
1,000	87.72	45.89	31.94	24.97	20.79
2,000	175.44	91.77	63.88	49.94	41.57
2,500	219.30	114.71	79.85	62.42	51.96
3,000	262.71	137.22	95.39	74.48	61.93
3,500	306.11	159.72	110.93	86.53	71.89

Equal Opportunity in Housing

FHA regulations under the President's Executive Order 11063 of November 20, 1962, require that housing provided with FHA assistance be made available without discrimination because of race, color, creed, or national origin.

The regulations prohibit any person, firm, or group receiving the benefits of FHA mortgage insurance or doing business with FHA from practicing such discrimination in lending or in the sale, rental, or other disposition of the property. Violations may result in discontinuation of FHA assistance.

One- or two-family dwellings which have been occupied by the owner are exempt from the regulations; but if the purchaser of such a home wishes to finance it with an FHA-insured mortgage the lender may not refuse to make the loan because of the buyer's race, color, creed, or national origin.

The FHA in Brief

Since its establishment in 1934, the Federal Housing Administration has written mortgage and loan insurance in a total amount of well over a hundred billion dollars. This amount covers mortgage insurance on millions of homes, on more than a million living units in multifamily projects, and on many millions of property improvement loans. Altogether, FHA has helped between 35 million and 40 million families to improve their housing standards and conditions.

Congress provided the FHA mortgage and loan insurance system to help improve housing standards, to promote the use of sound financing methods, and to help keep the mortgage market steady. FHA supports itself through income derived from fees, insurance premiums, and investments. Its insurance reserves are well over a billion dollars.

All loans insured under FHA programs are made by private FHA-approved lenders. FHA does not lend money or build housing.

The first FHA programs dealt with insured home improvement loans, home mortgage loans, and rental housing mortgage loans. Through its 76 field offices FHA now also insures mortgages to develop land, and to provide homes for servicemen and their families, housing for people of low and moderate income, housing in urban renewal areas, housing for the elderly or handicapped, nursing homes, cooperative housing, condominiums, experimental housing, housing at or near military centers; and long-term loans for major home improvements.

FHA has had a marked influence on the location, volume, and kind of housing built in the United States. It has helped to make the low-downpayment, long-term, fully amortized mortgage the standard in mortgage lending.

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